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TO: R. Mikulay DATE: February 8, 1990

FROM: J. Raporte

SUBJECT: Cambridge Spending Proposals

The purpose of this memo is to propose programs aimed at accelerating Cambridge's growth while protecting the franchise from aggressive competitor price initiatives. Combined with programs already included in the 1990 Original Budget, they represent a continuation of "investment spending" behind the brand to maximize volume until price/value category growth slows. This reinvestment policy allowed Cambridge to achieve collective volume gains of nearly 9 billion units during the last 3 years.

The four programs discussed below, combined, represent incremental volume potential of approximately 1.3 billion units over the 14.0 billion Original Budget and would cost an estimated $65 million (see Exhibit I). Implementation of these programs in their entirety would reduce Cambridge's O.B. net contribution of $116 million to $72 million.

1. INCREASE CARTON COUPON VALUES

Volume Potential - 500 million incremental

Cost - $37 million

Discussion - Last August, we discussed the strategy of using higher value carton coupons beginning 4Q'89 due to the anticipated acceleration in competitor couponing activity. Based on IRI scanning data, we now know that Doral sharply raised its incidence of $2.00 couponing during the final quarter of last year to a level higher than that of Cambridge (Exhibit II).

More recently, Doral shifted from this base of $2.00 coupons to $2.50 earlier this month in key price/value markets, with $3.00 promotional coupons in the same areas. According to field reports, Richland and Viceroy have also been using $2.50 coupons on a targeted basis since 4Q'89.

In contrast to these rising coupon values among key competitors, Cambridge's Original Budget currently calls for 90% $2.00 coupons and 10% $1.00 coupons throughout

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Source: https://www.industrydocuments.ucsf.edu/docs/rzwn0004

1990. This is inadequate if our primary objective is to maximize Cambridge volume. In fact, some field reports suggest that our business has already been adversely affected by competitor couponing. Following are recent section director comments:

> "Doral has been couponing at $2.50 for three months in the entire section and has $3.00 coupons available for use in targeted accounts. Brown & Williamson is couponing all Richland and Viceroy at $2.50. Cambridge is losing volume rapidly. In one account where we have dominant positioning for Cambridge, we sold 1,100 cartons in November but are down to 420 cartons for the last four weeks. We are also in jeopardy of losing our merchandising positions and momentum." - John Clary, Kansas City, January 24
>
> "Couponing activity has reached a fever pitch in the past two weeks, and in virtually every carton outlet our efforts pale relative to $2.50 and $3.00 couponing by our competitors (Doral, Richland, Viceroy)." - Jim Paddock, Dallas, January 26

The critical issue is whether Cambridge chooses to match competitor pricing or reinstate its price leadership among branded generics (which provided it with the highest market share growth of all brands in the category during '88 and most of '89). In general, a defensive strategy aimed at matching the competition would require a focus on $2.50 coupons and tactical use of $3.00, while an offensive strategy of price leadership requires a primary thrust with $3.00 coupons. The following table summarizes our assessment of couponing requirements for these alternate price strategies and assumes a start date of April at the end of the Feb./March carton promotion:

| Pricing Strategy | Couponing | Incremental Cost Vs. OB ($ Million) | Incremental Volume Vs. OB (Millions) |
|---|---|---|---|
| Option 1 - Match Competition (Defensive) | 30% $3.00<br>30% $2.50<br>40% $2.00 | $28* | --- |
| Option 2 - Leadership (Offensive) | 60% $3.00<br>20% $2.50<br>20% $2.00 | $37 | +500 |

* The $28 million would increase by $7 million if competitor coupon values increase again in July to a base of $3.00.

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Source: https://www.industrydocuments.ucsf.edu/docs/rzwn0004

The incidence levels applied to different coupon values in the table above are based on our analysis of MSA market data, field reports and market checks. For example, in Option 1, $2.50 coupons would in principal be used in above average price/value markets where Cambridge is now at a price or significant share disadvantage relative to Doral. These high potential markets are primarily concentrated in new Regions 2 and 3 which, combined, account for nearly half of total Cambridge sales. The Cambridge-Doral market share gap in these Regions is twice the national average (Exhibit III). By contrast, the 30% $3.00 coupons would be used to insure competitive pricing in high volume geographies and to insulate Cambridge from the adverse impact of subgenerics; Pyramid's share exceeds 2% in 22 markets which account for half of the brand's total volume and nearly one-third of Cambridge volume (Exhibit IV). Finally, the $2.00 coupons would be used in lower priority geographies where volume opportunities or competitor couponing levels do not justify/require a higher value coupon.

The primary drawback of Option 1 is that it is defensive and provides no potential for incremental volume gains. In addition, it assumes no change in competitor couponing behavior in the event of a mid-year price increase.

Based on Cambridge's historical share gains during periods of aggressive coupon promotions, we estimate that Option 2 would generate incremental share of about 0.2 points or approximately 500 million units in 1990. The primary risk of Option 2 is that part of the volume gains would be offset if competition immediately matches Cambridge's higher value coupons. This is highly probable given that Doral is RJR's only viable price/value entry, that the brand is essential for corporate volume gains and that it is their only current defense against the sub-generic category.

2. <u>EXPAND HIGH VOLUME DISPLAY PROGRAM</u>

Volume Potential - 600 million units total, 500 million incremental

Cost - $6.2 million

Discussion - It is recommended that Cambridge roll-out this program nationally following the successful tests in Kansas, Virginia and North Carolina during '89. These tests indicate that Cambridge will increase its volume significantly in participating high volume outlets by maintaining large ongoing temporary/semi-permanent displays coupled with high profile signage/visibility. This program offers the additional benefit of "tying-up"

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Source: https://www.industrydocuments.ucsf.edu/docs/rzwn0004

retailer merchandising dollars over an extended period, thus creating a barrier to entry for our competitors in these stores. The proposed national program (Plan HV) would target over 3,700 outlets.

The volume benefits of capturing temporary/semi-permanent display space are further substantiated by our carton promotion results in '89 and a recent Market Research Department couponing study:

- During each of the two carton promotions in '89, which emphasized placement of temporary carton displays in key outlets, Cambridge's national Nielsen share rose by 0.2 share points. Gains were largest in supermarkets where Cambridge is at its greatest permanent merchandising disadvantage relative to Doral.

- An Alpine/Cambridge Couponing and Display Test conducted in 2H'89 by the Market Research Dept. suggests that the presence of a display with proper visibility may increase sales by approximately 40%.

The above proposal covers only temporary/semi-permanent merchandising needs. However, permanent carton merchandising remains equally critical to improving price/value inventory levels and visibility. This is particularly applicable to key markets where Doral remains entrenched. Accordingly, the Sales Deptartment is finalizing revisions to Plans A/AV/AF which will give the field more flexibility in tailoring racks/signage to individual account needs.

3. INCREASE FUNDING OF TWO CARTON PROMOTIONS

Volume Potential - 200 million units incremental

Cost - $18 million

Discussion - Last year, Cambridge successfully implemented a value-added promotion strategy which is aimed at insuring long-term growth by differentiating the brand from other price/value entries. In fact, according to shipment data, most of Cambridge's 2.1 billion unit increase during '89 was generated by these two carton promotions which combined competitive couponing with value-added incentives. No other price/value brand to date has used this strategy.

Cambridge's second value-added carton promotion scheduled for 1990 is not fully funded in the current budget. Given the difficulties in soliciting participants from Kraft General Foods for the originally scheduled Big Bonus

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Source: https://www.industrydocuments.ucsf.edu/docs/rzwn0004

Coupon Book II, Cambridge proposes to substitute a Free Magazine offer. The Free Magazine with carton purchase promotion is more expensive than Big Bonus (+$7.9 million) due to the fact that Cambridge will fund redemptions and that higher display placements are anticipated. The Media department is currently investigating the feasibility of the major publishers absorbing a portion of the redemption cost.

The Free Magazine promotion is attractive for several reasons:

- Strong consumer incentive - popular store item with instant gratification at no additional cost.
- Retailer synergy - provides increased demand for magazines which are a high profit margin item.
- Applicable to all trade classes - magazines are sold in supermarkets, convenience stores and mass merchandisers, whereas the Coupon Book is primarily aimed at supermarkets.
- Evolves value-added positioning established during 1989 and continues affiliation with well known trademarks to build Cambridge's credibility.
- Unique among competitors - no other price/value brand has offered a similar incentive.

The approved Original Budget contained funding for only two national carton promotions (the same as 1989) and there were discussions about a third promotion, namely 3-Ply Coupon. We now recommend approval of the third promotion for the 4Q to generate an additional 0.2 share points annually or about 200 million incremental units during the 4Q.

3-Ply Coupon will provide consumers with a large selection of rotating coupons for manufacturer rebates which are attached to the standard on-carton Cambridge coupon. This program offers us the option of extendibility beyond the promotion period for a permanent value-added positioning. The cost of the incentive ($1.00 net of redemption) is also significantly lower than that of Bag It ($2.00) or Free Magazine ($1.30 net of redemption).

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Source: https://www.industrydocuments.ucsf.edu/docs/rzwn0004

4. ADD A NATIONAL PACK PROMOTION

Volume Potential - 130 million units total, 50 million incremental

Cost - $2.6 million

Discussion - The Original Budget calls for two national price-off pack promotions, one in April and the other in August. We propose to add an additional pack promotion of the same size in November which would deliver an estimated 50 million incremental units to the franchise. More importantly, these pack promotions are an excellent vehicle for generating trial by price conscious consumers, particularly since discounted product is primarily displayed in front-counter locations. Though the use of $0.25 price-off stickers by competitors has increased during the last year, this continues to be an effective offensive promotional tool.

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Source: https://www.industrydocuments.ucsf.edu/docs/rzwn0004

# EXHIBIT I

CAMBRIDGE INCREMENTAL SPENDING REQUEST

(THOUSANDS OF DOLLARS)

## 1990 ORIGINAL BUDGET

| ON CARTON COUPONS - MONTHLY ALLOCATION & COMP RESPONSE | QUANTITY | BUDGET |
|---|---|---|
| $1.00 CARTON COUPONS | 3,600 | 3,334 |
| $2.00 CARTON COUPONS | 38,050 | 80,856 |
| $2.50 CARTON COUPONS | 0 | 0 |
| $3.00 CARTON COUPONS | 0 | 0 |
| COMP RESPONSE - $2.00 | 1,150 | 2,444 |
| TOTAL | 42,800 | $86,634 |

| JUNE/JULY CARTON PROMOTION BIG BONUS COUPON BOOK | QUANTITY | BUDGET |
|---|---|---|
| $2.00 CARTON COUPONS | 690 | $1,412 |
| INCENTIVES | 3,500 | 1,360 |
| POS MATERIALS/OTHER | | 1,179 |
| TOTAL | | $3,951 |

| SEPTEMBER/OCTOBER PROMOTION 3 PLY COUPONS | QUANTITY | BUDGET |
|---|---|---|
| $2.00 CARTON COUPONS | | |
| INCENTIVES | | |
| POS MATERIALS/OTHER | | 500 |
| TOTAL | | $500 |

| PACK STICKER/COUPON PROMOTIONS | BUDGET |
|---|---|
| APRIL PROGRAM | $2,629 |
| AUGUST PROGRAM | 2,629 |
| NOVEMBER PROGRAM | 0 |
| TOTAL | $5,258 |

EACH PROGRAM FEATURES 6.45 MM $.40 OFF PACK STICKERS & COUPONS.

| HIGH VOLUME DISPLAY PROGRAM | $0 |
|---|---|

| OTHER BRAND PROGRAMS | |
|---|---|
| ADVERTISING - MEDIA & PRODUCTION | $18,925 |
| BOWLING SPONSORSHIP | 1,549 |
| BAG IT PROMOTION | 9,356 |
| REGION 3 & 5 HEAVY UP | 1,400 |
| MILITARY HEAVY UP | 730 |
| COUPON SOLUTION | 300 |
| DIRECT MARKETING TEST | 100 |
| PERM & TEMP POS/ARTWORK | 2,390 |
| BONUS RESERVE | 2,407 |
| TOTAL BRAND PROGRAMS | $133,500 |

TOTAL INCREMENTAL COST OVER APPROVED BUDGET

## ALTERNATIVE #1

| ON CARTON COUPONS - MONTHLY ALLOCATION & COMP RESPONSE | QUANTITY | BUDGET |
|---|---|---|
| $1.00 CARTON COUPONS | 1,050 | $972 |
| $2.00 CARTON COUPONS | 23,010 | 48,896 |
| $2.50 CARTON COUPONS | 10,170 | 26,645 |
| $3.00 CARTON COUPONS | 10,170 | 31,680 |
| COMP RESPONSE - $2.50 | 2,357 | 6,175 |
| TOTAL | 46,757 | $114,368 |

| FREE MAGAZINE PROMOTION | QUANTITY | BUDGET |
|---|---|---|
| $2.50 CARTON COUPONS | 1,900 | $4,990 |
| INCENTIVES | 4,000 | 5,200 |
| POS MATERIALS/OTHER | | 720 |
| TOTAL | | $10,910 |

| 3 PLY COUPONS | QUANTITY | BUDGET |
|---|---|---|
| $2.50 CARTON COUPONS | 1,900 | $4,990 |
| INCENTIVES | 4,000 | 4,400 |
| POS MATERIALS/OTHER | | 720 |
| TOTAL | | $10,110 |

| | BUDGET |
|---|---|
| APRIL PROGRAM | $2,629 |
| AUGUST PROGRAM | 2,629 |
| NOVEMBER PROGRAM | 2,629 |
| TOTAL | $7,887 |

| HIGH VOLUME DISPLAY PROGRAM | $6,200 |
|---|---|

| OTHER BRAND PROGRAMS | |
|---|---|
| ADVERTISING - MEDIA & PRODUCTION | $18,925 |
| BOWLING SPONSORSHIP | 1,549 |
| BAG IT PROMOTION | 9,356 |
| REGION 3 & 5 HEAVY UP | 1,400 |
| MILITARY HEAVY UP | 730 |
| COUPON SOLUTION | 300 |
| DIRECT MARKETING TEST | 100 |
| PERM & TEMP POS/ARTWORK | 2,390 |
| BONUS RESERVE | 2,407 |
| TOTAL BRAND PROGRAMS | $186,632 |

$53,133

## ALTERNATIVE #2

| ON CARTON COUPONS - MONTHLY ALLOCATION & COMP RESPONSE | QUANTITY | BUDGET |
|---|---|---|
| $1.00 CARTON COUPONS | 1,050 | $972 |
| $2.00 CARTON COUPONS | 16,230 | 34,489 |
| $2.50 CARTON COUPONS | 6,780 | 17,764 |
| $3.00 CARTON COUPONS | 20,340 | 63,359 |
| COMP RESPONSE - $3.00 | 2,357 | 7,342 |
| TOTAL | 46,757 | $123,926 |

| FREE MAGAZINE PROMOTION | QUANTITY | BUDGET |
|---|---|---|
| $3.00 CARTON COUPONS | 1,900 | $5,951 |
| INCENTIVES | 4,000 | 5,200 |
| POS MATERIALS/OTHER | | 720 |
| TOTAL | | $11,851 |

| 3 PLY COUPONS | QUANTITY | BUDGET |
|---|---|---|
| $3.00 CARTON COUPONS | 1,900 | $5,951 |
| INCENTIVES | 4,000 | 4,400 |
| POS MATERIALS/OTHER | | 720 |
| TOTAL | | $11,051 |

| | BUDGET |
|---|---|
| APRIL PROGRAM | $2,629 |
| AUGUST PROGRAM | 2,629 |
| NOVEMBER PROGRAM | 2,629 |
| TOTAL | $7,887 |

| HIGH VOLUME DISPLAY PROGRAM | $6,200 |
|---|---|

| OTHER BRAND PROGRAMS | |
|---|---|
| ADVERTISING - MEDIA & PRODUCTION | $18,925 |
| BOWLING SPONSORSHIP | 1,549 |
| BAG IT PROMOTION | 9,356 |
| REGION 3 & 5 HEAVY UP | 1,400 |
| MILITARY HEAVY UP | 730 |
| COUPON SOLUTION | 300 |
| DIRECT MARKETING TEST | 100 |
| PERM & TEMP POS/ARTWORK | 2,390 |
| BONUS RESERVE | 2,407 |
| TOTAL BRAND PROGRAMS | $198,072 |

$64,572

Source: https://www.industrydocuments.ucsf.edu/docs/rzwn0004

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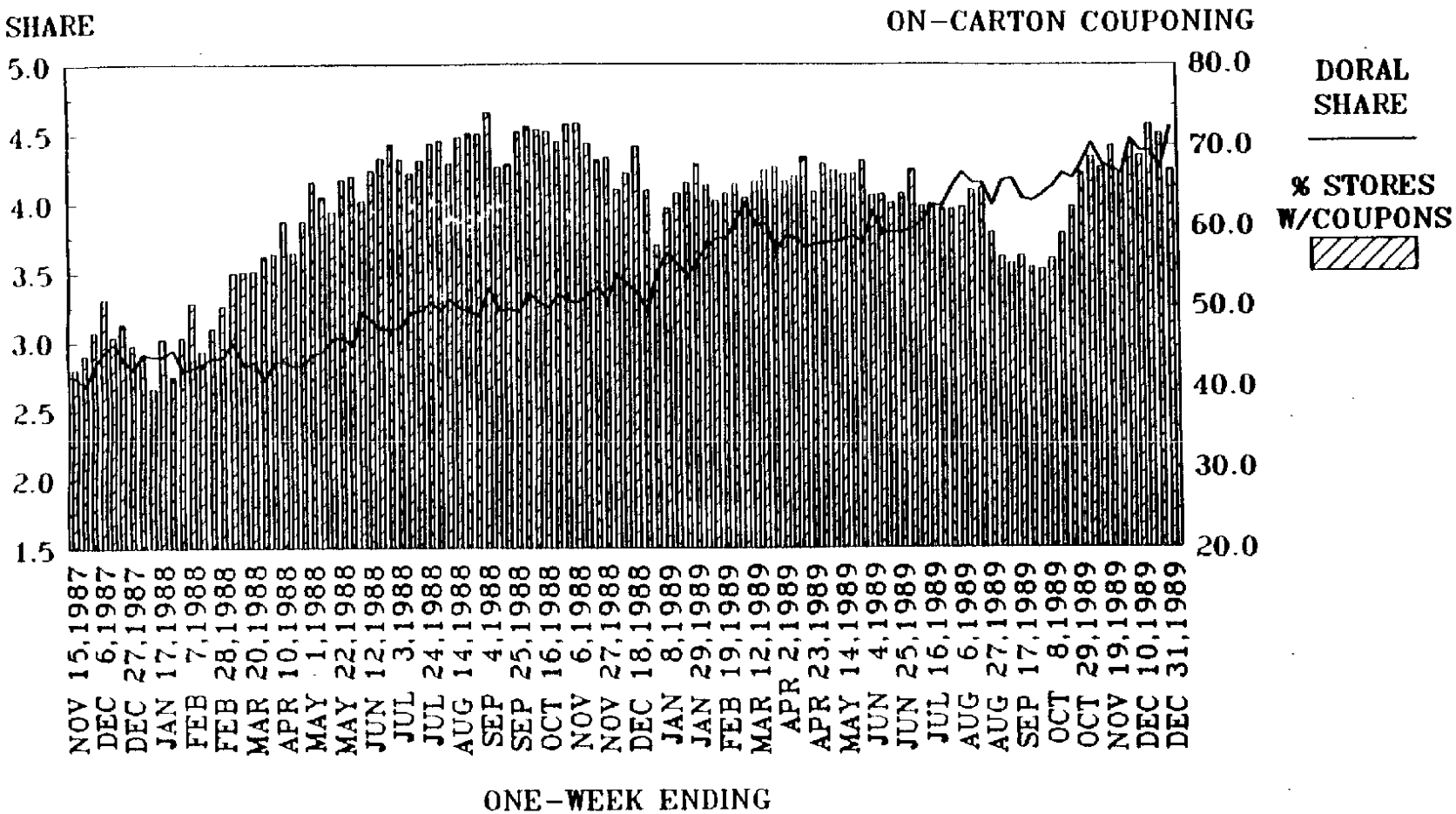
EXHIBIT II

# DORAL

## IN-STORE PROMOTIONAL ACTIVITY
## TOTAL U.S.: WEEK ENDING DECEMBER 31, 1989




SOURCE: INFOSCAN

Source: https://www.industrydocuments.ucsf.edu/docs/rzwn0004

EXHIBIT III

CAMBRIDGE VOLUME CONTRIBUTION AND SHARE GAP BY REGION

(MSA, 12mm thru
December 1989)

| Region | 1 | 2 | 3 | 4 | 5 | NATIONAL |
|---|---|---|---|---|---|---|
| Cambridge Volume Contrib. (%) | 9 | 18 | 30 | 26 | 17 | 100 |
| Price/Value Volume Contrib. (%) | 11 | 19 | 28 | 25 | 17 | 100 |
| Doral–Cambridge Share Gap (pts.) | 0.4 | 2.8 | 2.3 | 0.5 | 0.6 | 1.3 |

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Source: https://www.industrydocuments.ucsf.edu/docs/rzwn0004

EXHIBIT IV

TOP PYRAMID MAKETS

(MSA, 3mm,
December 1989)

| | PYRAMID SHARE (Pts.) | PYRAMID VOL. CONT. (%) | CAMBRIDGE VOL. CONT. (%) | DORAL VOL. CONT. (%) |
|---|---|---|---|---|
| ALBANY | 6.7 | 2.8 | 0.3 | 0.3 |
| LOUISVILLE | 5.8 | 8.6 | 4.1 | 3.2 |
| BIG SKY | 4.9 | 1.7 | 0.7 | 0.6 |
| BUFFALO | 4.4 | 3.8 | 0.8 | 0.8 |
| LITTLE ROCK | 3.9 | 2.5 | 2.1 | 1.2 |
| HUNTINGTON | 3.8 | 3.0 | 1.4 | 1.7 |
| KNOXVILLE | 3.6 | 2.1 | 0.9 | 1.1 |
| NASHVILLE | 3.3 | 2.1 | 0.8 | 1.4 |
| WICHITA–SALINA | 3.2 | 1.7 | 1.4 | 0.8 |
| KANSAS CITY | 3.1 | 4.2 | 3.2 | 1.6 |
| EL PASO TEXAS | 2.9 | 0.6 | 0.3 | 0.4 |
| SPOKANE | 2.9 | 0.9 | 0.5 | 0.4 |
| LAKE CHARLES | 2.7 | 0.6 | 0.4 | 0.7 |
| ST LOUIS | 2.7 | 4.3 | 2.4 | 1.9 |
| SCRANTON | 2.4 | 1.2 | [illegible] | 0.3 |
| OMAHA – LINCOLN | 2.4 | 1.2 | [illegible] | 0.5 |
| ROANOKE | 2.3 | 1.1 | [illegible] | 1.1 |
| OKLAHOMA CITY | 2.2 | 1.3 | [illegible] | 1.2 |
| DES MOINES | 2.2 | 1.9 | [illegible] | 1.2 |
| TULSA | 2.2 | 0.7 | 0.8 | 0.7 |
| INDIANAPOLIS | 2.0 | 2.1 | 2.1 | 1.1 |
| MEMPHIS | 2.0 | 2.1 | 1.6 | 2.3 |
| TOTAL 22 MARKETS | | 50.3 | 30.3 | 24.6 |

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Source: https://www.industrydocuments.ucsf.edu/docs/rzwn0004